



# ***CITY COUNCIL AGENDA REPORT***

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**MEETING DATE:** November 18, 2008

**ITEM NUMBER:** Item Number

**SUBJECT:** Pre-Tax Payroll Deductions for Employee Contributions to the California Public Employees' Retirement System (CalPERS)

**DATE:** NOVEMBER 6, 2008

**FROM:** ADMINISTRATIVE SERVICES DEPARTMENT/HUMAN RESOURCES DIVISION

**PRESENTATION BY:** TERRI L. CASSIDY, HUMAN RESOURCES MANAGER

**FOR FURTHER INFORMATION CONTACT:** TERRI L. CASSIDY (714) 754-5115

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## **RECOMMENDATION:**

- 1) Adopt CalPERS Employer Pickup Resolution, which continues Pre-Tax Payroll Deduction Plan for California Public Employee's Retirement System (CalPERS) Employee Member Contributions under Internal Revenue Service (IRS) Code Section 414 (h)(2) for all employee groups.
- 2) Approve the Finance Department taking the necessary steps to follow through with appropriate arrangements per CalPERS procedures.

## **BACKGROUND:**

On March 8, 2007, the City Council adopted a Resolution No. 07-27, which enabled the City to implement a pre-tax payroll deduction plan for (CalPERS) service credit purchases under IRS Code section 414 (h)(2). At the time, the City's retirement formula was 2%@55, and the City paid both the employer and employee member contributions to CalPERS. Effective, October 1, 2008, the City amended the contract with CalPERS to provide the 2.5%@55 retirement formula with the requirement that employee members of CalPERS must pay the requisite 3.52% cost increase of the enhancement.

Currently full-time employees are paying this 3.52% increase via pre-tax payroll deductions. CalPERS is now requiring that all of their member agencies participating in this program submit resolutions by December 31, 2008 in order maintain this practice. The resolution format is provided by CalPERS and is used to codify the City's intent to maintain pre-tax deductions for member employees. Adopting Resolution No. \_\_\_\_\_ (Attachment I) satisfies the IRS requirement to adopt "conforming documentation" prior to the December 31, 2008 deadline set by IRS Revenue Ruling 2006-43 (Attachment II).

**ANALYSIS:**

This is a ministerial action required by CalPERS (via Circular Letter No. 200-049-08 dated October 3, 2008) to maintain the City's practice of pre-tax payroll deductions for employee contributions. Adoption of this resolution will also allow part-time employees enrolled in CalPERS to make their contribution via pre-tax payroll deduction.

**ALTERNATIVES CONSIDERED:**

Pre-tax payroll deductions for employee contributions have been conducted since September of 2007. By not authorizing the attached resolution, these payroll deductions and future payroll deductions would be subject to Federal and State taxation.

**FISCAL REVIEW:**

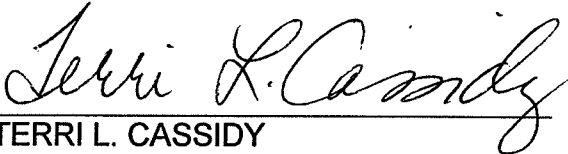
There is no cost incurred by the City with the adoption of this resolution. The adoption of this resolution continues the status quo.

**LEGAL REVIEW:**

Legal has reviewed the resolution and approved it as to form.

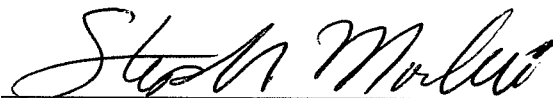
**CONCLUSION:**

Staff recommends that the City Council adopt Resolution No. \_\_\_\_, which maintains the status quo, allowing CalPERS member employees to contribute to their retirement plan via pre-tax payroll deductions.



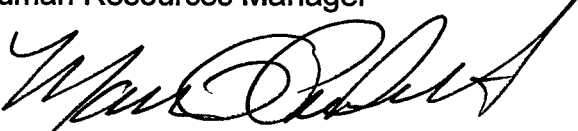
TERRI L. CASSIDY

Human Resources Manager



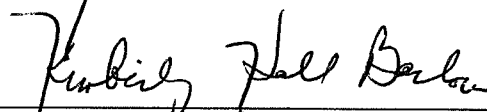
STEPHEN N. MANDOKI

Director of Administrative Services



MARC R. PUCKETT

Director of Finance



KIMBERLY HALL BARLOW

City Attorney

DISTRIBUTION: City Manager  
City Attorney  
City Clerk  
Director of Finance

ATTACHMENTS: I Resolution No. \_\_\_\_\_  
II CalPERS Circular Letter No. 200-049-08  
and Revenue Ruling 2006-43